UNITED NATIONS

DEPARTMENT OF PUBLIC INFORMATION

NON-GOVERNMENTAL ORGANIZATIONS
AND INSTITUTIONAL RELATIONS SECTION

Room S-1037D / (212) 963-6842 // Fax: 963-6914

NGO Resource Centre, Room S-101 / (212) 963-7234 New York, N.Y. 10017, USA

DPI/NGO/SB/1/92

BRIEFING FOR REPRESENTATIVES OF NON-GOVERNMENTAL ORGANIZATIONS

by

Susan R. Mills
Deputy Controller
Dag Hammarskjold Library

9 January 1992

THE FINANCIAL SITUATION OF THE UNITED NATIONS

Good morning, ladies and gentlemen.

It is a real pleasure for me to have the opportunity to speak to you today. I have been asked to speak to you about the financial situation of the United Nations. In this connection, I should mention that my colleagues and I in the Secretariat welcome any opportunities to contribute to a better understanding of this aspect of the work of the Organization, especially on the part of those individuals who can have a significant impact on the policies of Member States, as this group does.

In checking my records, I note that just over four years ago, in December 1987, to be exact, I had the honour of addressing this group, on essentially the same subject. At that time, the United Nations was in the midst of the worst financial crisis the Organization had confronted in its history.

Outstanding contributions, that is, unpaid assessments, were at an unprecedented level, owing mainly to the decision of the United States Government, in the closing days of 1985, not to pay a substantial part of its assessed contributions for the regular budget until the Organization instituted what the United States considered to be necessary reforms. As a result, the Organization had been obliged, throughout 1986 and 1987, to make drastic across-the-board forced economies in order to remain within the cash it could reasonably expect to receive.

While the situation at the end of 1987 was still very serious, we in the Secretariat had reason to believe that the situation might improve in 1988, or at least that it would not worsen, as the General Assembly had, in 1986, adopted by consensus resolution 41/213. That resolution embodied virtually all of the so-called "reform measures" which the United States had been espousing. The adoption of that resolution by consensus involved the implicit understanding that the United States would resume paying its legal obligations to the United Nations in full.

Unfortunately, our expectations were not to be realized. Indeed, the situation has deteriorated significantly since that time. I shall return to this point and give you some statistics a bit later in my statement.

But first, let me begin by underlining that for the United Nations, the present period is one of change - change in the political climate in which the Organization operates, in the tasks the United Nations is being called upon to undertake, and therefore, in internal structures and procedures. The end of the cold war is now making it possible for the Organization to perform its functions under the Charter. But it also means that the United Nations has to address a multitude of new and serious problems.

Over the past year, the United Nations has launched no less than five new peace-keeping operations: along the Iraq-Kuwait border (UNIKOM), in El Salvador (ONUSAL), in Angola (UNAVEM II), in Western Sahara (MINURSO) and the preparatory phase, called UNAMIC, of what will be an operation of unprecedented scope, in Cambodia. Yesterday, the Security Council approved the initial phase of what is expected to be a massive peace-keeping operation in Yugoslavia.

A highly complex set of tasks is being undertaken by the United Nations pursuant to resolutions of the Security Council relating to Iraq. An election observation operation was successfully completed, notwithstanding unfortunate subsequent events, in Haiti (ONUVEH). Vast new United Nations activities are also being undertaken in the areas of the environment, drugs control, human rights and humanitarian relief.

These activities, however, are only a beginning. The United Nations has been called upon to give top priority to preventive diplomacy to help avert future conflicts and further to reinforce its role in peace-keeping. The Organization is also being advised to reorganize and strengthen its machinery for large-scale humanitarian intervention, including action in cases of violent oppression. And of course there is the continuing preoccupation with the traditional economic and social development issues as well as the environment.

In this context, it is important to remember that the sovereign Member States, acting within the established deliberative organs of the United Nations, remain the ultimate decision-makers with respect to the selection of goals, priorities and tasks for the United Nations. This is a political process, similar in many respects to the political process at the national level in most Member States.

But once the deliberative organs have taken their decisions, the responsibility passes to the Secretary-General and the process becomes a managerial one. The Secretary-General is responsible for translating the overall direction that has been set for the Organization into concrete and practical programmes which he is expected to implement and co-ordinate. He is also responsible for identifying the resources required to carry out these programmes. This is where the budgeting instrument plays a major role.

The process of formulation and approval of the budget of the United Nations reflects the diversity and complexity of the United Nations as a political and administrative system. In principle, the regular budget of the United Nations is prepared, within the framework of a six-year Medium Term Plan previously approved by the General Assembly, to cover the activities foreseen in the Plan for a two-year period. The Secretary-General presents proposals which, after review by several subsidiary bodies, are considered and approved by the General Assembly.

In approving the budget, the General Assembly also approves the appropriations to finance the budget, including the amounts to be assessed on all Member States, based on a scale of assessments which the General Assembly itself approves.

Sharp differences have arisen over the years in the way Member States have interpreted the goals and priorities of the Organization. For instance, some major financial contributors have been unwilling to pay for certain actions voted by United Nations deliberative organs in which these countries felt that their interests were not adequately represented.

As a result of this, certain Member States, for political reasons, have withheld part or all of their assessed contributions to the regular budget or to peace-keeping operations of the Organization, or have deliberately delayed the payment of their assessments. Neither of these practices is consistent with Member States' legal obligations under the United Nations Charter.

This has created the "financial crisis", which has been an overriding issue in the United Nations for more than thirty years. Of course, what is characterized as a financial crisis is, in fact, a political crisis. This does not, however, make the crisis any less real in financial terms. Indeed, the current financial situation is very precarious.

In this connection, the 1986 reforms spearheaded by the United States, to which I referred a few moments ago, were designed to meet the complaints of the major contributors (not only the United States) that their interests were not given adequate consideration, by introducing the requirement for consensus in the budgetary process. In pressing for the adoption of this and other reforms, the United States committed itself, as I mentioned, to resume paying in full once the reforms had been instituted. The 1986 reforms have by no means resolved the problems they were intended to correct, nor has the United States resumed paying in full.

At this point, I should emphasize that not all of the Organization's activities are programmed and financed through the mechanism of the programme budget. A significant part of the Organization's activities, particularly in the areas of development, the environment, drugs control as well as a wide range of humanitarian activities, are financed through voluntary contributions from Member States and others.

At the same time, financial arrangements for United Nations peace-keeping operations entail a special set of provisions - and problems. While some peace-keeping operations are financed from the United Nations regular budget, others have been financed by the parties most directly concerned, and one - UNFICYP - is financed from voluntary contributions. However, most United Nations peace-keeping operations established since 1960 are financed by special arrangements separate from those which pertain to the Organization's expenses under its regular budget.

Under these arrangements, Member States are assessed for these operations on the basis of a special scale, which takes the scale of assessments for the regular budget as its point of departure, and then adjusts it, dividing Member States into four groups, ranging from the Permanent Members of the Security Council to the least economically developed. In other

respects, the budget formulation and approval process for peace-keeping operations is very similar to that for the regular budget.

The payment of assessments is a legal obligation of Member States under the Charter of the United Nations, which is a treaty. Under the Financial Regulations and Rules of the United Nations, Member States have the legal obligation to pay their assessed contributions, whether for the regular budget or for peace-keeping operations assessed on a special basis, in full within thirty days of receipt of a letter from the Secretary-General informing them of the amount of their assessment. Throughout the Organization's history, however, and unfortunately more than ever so today, most Member States have not fulfilled that legal obligation.

The only sanction which can be applied for failure to pay assessed contributions is found in Article 19 of the Charter of the United Nations. It provides that a Member State which is in arrears in the payment of its financial contributions to the Organization shall have no vote in the General Assembly if the amount of its arrears equals or exceeds the amount of all assessed contributions due from it for the preceding two full years.

Over the years, this sanction has been applied from time to time to various Member States. The General Assembly has also chosen <u>not</u> to apply this sanction, by avoiding any votes at all. Experience has shown, however, that the threat of the application of Article 19, or the actual use thereof, has not constituted, for certain Member States, an adequate incentive to pay up.

As I indicated earlier, the financial crisis of the Organization has not been allayed. In fact, it is now more severe than ever. At 31 December 1991, the level of outstanding contributions to the regular budget stood at $439.3 million, of which $375 million related to 1991 and $64.3 million related to prior years. Of this amount, $266.4 million is owed by the United States. I should point out that as of the same date, that is, at the end of the year, only 74 Member States had fully paid their contributions to the regular budget.

By way of comparison, at 31 December 1987, outstanding contributions, that is, unpaid assessments to the regular budget, totalled $353.4 million, of which $252.8 million was owed by the United States.

Outstanding contributions for specially-assessed peace-keeping operations have also remained high. At the end of 1987, when there were only two specially-assessed peace-keeping operations, namely, UNEF/UNDOF and UNIFIL, outstanding contributions for peace-keeping operations totalled almost $363 million. At the end of 1991, outstanding contributions for nine specially-assessed peace-keeping operations, (including two which had been completed, namely, UNTAG and UNIIMOG) totalled $377.1 million, of which just over $140.9 million was owed by the United States.

Indeed, at 31 December 1991, only 25 Member States had fully paid all their assessments to the United Nations. Interestingly, included among these Member States was only one of the five Permanent Members of the Security Council, namely, China, and only three of the Member States who are among the ten top contributors in terms of the size of their assessment - namely, Canada, Spain and the Netherlands, who ranked 8th, 9th and 10th, respectively.

Such a high level of unpaid assessments makes it extremely difficult for the Organization to meet its cash commitments. The precarious financial situation, in which the Organization's reserves are depleted, has been made even more fragile by the increased demands of new peace-keeping and peace-making operations. In 1991, the Organization was obliged to incur expenses, estimated at $28.5 million up to 31 December 1991, for the activities in the Gulf undertaken in compliance with Security Council resolution 687 (1991), without any assessments for that purpose and in the absence of any proceeds from the sale of Iraqi petroleum.

At the same time, the United Nations had to meet expenses related to the United Nations Advance Mission in Cambodia (UNAMIC) (estimated at $6.7 million up to 31 December), for which an assessment was approved only on 20 December 1991. These additional activities have created increased strains on the already precarious financial situation.

The Security Council is now about to ask the United Nations to launch the major operation in Cambodia (UNTAC), the costs of which are still far from certain, but may, very tentatively, be estimated between $750 million and $1 billion for the first year. Similarly, it is extremely difficult to estimate at this stage what might be the costs of the major peace-keeping operation in Yugoslavia which is now under consideration. If, as some think, it might involve a peace-keeping force of 10,000 military personnel, such an operation could cost between $350 million and $400 million for the first year.

Owing to the extraordinarily high level of outstanding contributions for both the regular budget and assessed peace-keeping operations, it has been necessary throughout the period from 1986 to date to draw upon the cash reserves of the Organization to meet current operating requirements. In 1990 for a few days and then again starting in mid-August of 1991, these cash reserves were completely exhausted. Consequently, from mid-August until mid-October and again in December 1991, it was necessary to borrow from the few peace-keeping operations which had cash in excess of their immediate requirements in order to meet regular budget obligations. Throughout that period, it was also necessary to borrow from certain peace-keeping accounts to cover the daily operational requirements for some of the new peace-keeping operations.

The Secretary-General's capacity to resort to such ad hoc arrangements and stop-gap measures has been virtually exhausted. In a report (document A/46/600/Add.1) issued on 25 November 1991, the Secretary-General outlined this situation in more detail. He also put forward to the General Assembly a package of proposals intended to provide the elements of a viable, durable solution to the perennial financial difficulties of the Organization for both the short term and the longer term.

The main proposals may be summarized as follows.

Proposal No. 1 consists of a set of measures to deal with the cash flow problems caused by the exceptionally high levels of unpaid contributions and inadequate working capital. The General Assembly was asked to agree, inter alia, to:

(a) Charge interest on the amounts of all assessed contributions that are not paid on time;

(b) Increase the Working Capital Fund to a level of $250 million as from 1 January 1992 and endorse the principle that the level of the Fund should be approximately 25 per cent of the annual assessment under the regular budget;

(c) Establish a temporary Peace-keeping Reserve Fund, at a level of $50 million, as from 1 January 1992, to meet initial expenses of peace-keeping operations pending receipt of assessed contributions;

(d) Authorize the Secretary-General to borrow commercially, should the other sources of cash be inadequate.

Proposal No. 2 is the establishment of a Humanitarian Revolving Fund, at a level of $50 million, by a one-time assessment on Member States, to be used in emergency humanitarian situations, pending receipt of voluntary contributions from donor Governments and others.

Proposal No. 3 is the establishment of a United Nations Peace Endowment Fund, with an initial target level of $1 billion. The Fund would be created by a combination of assessed and voluntary contributions, with the latter to be sought from the private sector and individuals as well as Governments. Once the Fund reaches its target level, the proceeds from the investment of its principal would be used to finance the initial costs of authorized peace-keeping operations, other conflict resolution measures and related activities.

On 4 December 1991 the Secretary-General personally introduced his proposals to the General Assembly and urged the General Assembly to take prompt action to approve them. While some Member States, particularly the Nordic countries, the CANZ countries (that is, Canada, Australia and New Zealand), Austria and Ireland strongly supported the Secretary-General's proposals, a number of other Member States, particularly, but not only, most members of the European Community, stated that they did not support the proposals, primarily on the grounds that such steps would not be necessary if the United States were to pay its outstanding assessments. Ultimately, the General Assembly postponed any action on these proposals until a resumed session sometime in 1992.

While we consider it most unfortunate that the General Assembly did not find it possible to act on these proposals before it suspended its session, there were some positive results, from the financial perspective, at that General Assembly session.

For one thing, the General Assembly, after some difficult negotiations, adopted by consensus the programme budget for the 1992-1993 biennium. That budget, at some $2.4 billion gross, or just under $2 billion net, provides the Secretary-General with spending authority.

With even greater difficulty, the General Assembly adopted, by consensus, a scale of assessments for the period 1992-1994. I should mention, parenthetically, that in recent years, the scale of assessments has become even more controversial politically than the level of the budget. The adoption of the scale of assessments was critical, from the Secretary-General's perspective, for without it, he would be unable to issue assessments to Member States for the budget they approved.

As I mentioned earlier, assessments are due and payable in full within 30 days, but few Member States meet that legal obligation. In the light of the Organization's critical financial situation, nine Member States made a special effort to pay their 1992 assessment for the programme or regular budget on or before the first working day of the year. These nine Member States are: Australia, Canada, Denmark, Finland, Iceland, Ireland, New Zealand, Norway and Sweden.

As a result, we are able to start the New Year with some $77 million paid against 1992 assessments. On 2 January 1992, in his first official meeting after assuming office, the new Secretary-General, Mr. Boutros Ghali, met with the representatives of these nine Member States to thank them for their support and commitment to the Organization. Both he and they expressed the hope that the actions taken by these Member States would be contagious and that other Member States would follow their example. Frankly, it is too soon to judge whether 1992 will mark a break with the past in this regard.

To sum up, it is particularly ironic that, at a time when the international community is turning increasingly to the United Nations, the difficult financial situation of the Organization should be exacerbated by late payments, partial payments and a lack of commitment to provide the Organization with the resources necessary to fulfill its responsibilities.

The same membership which has mandated that the United Nations carry out unprecedented new responsibilities must ensure, at the same time, that the minimum financial resources required to carry out these responsibilities are provided to the Organization on a reliable and predictable basis.

We are facing a fundamental problem in dealing with the unprecedented expansion of the Organization's activities. While that expansion demonstrates a high level of confidence in the capacity of the United Nations to meet the needs of the international community, there is a woeful lack of serious thought being given to the costs involved. The imbalance between what the Organization is expected to do and the provision of resources needed to translate those responsibilities into reality is becoming more and more pronounced. This problem must be addressed head on and soon.

*****

In attempting to cover the topic assigned to me in its broad context, I have undoubtedly not addressed some of the more specific points you may wish to raise. I thank you for your attention and would be pleased to respond to your questions.